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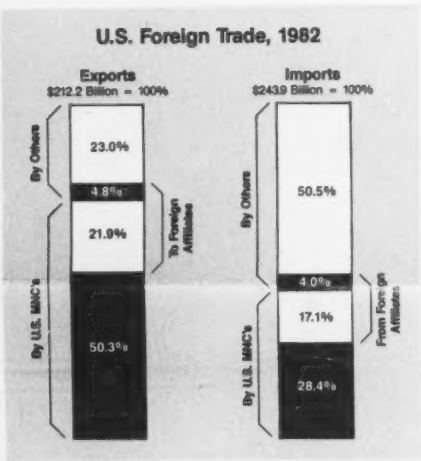
The Intracompany Trade of U.S. Multinationals

Can intracompany trade—that is, trade between a multinational corporation (MNC) and its foreign affiliates—be considered genuine foreign trade? More important, are intracompany transactions guided by different considerations and do they respond differently to economic forces than trade with unaffiliated parties? Interest in these issues has been growing as somewhat more detailed data have become available and as more and more corporations, from both the United States and other industrial countries, have set up manufacturing facilities in generally lower-cost locations abroad.

Multinationals and U.S. Trade

While it is clear that MNCs play a considerable role in international trade, it is not easy to quantify that role. As a recent United Nations report noted, "Unfortunately, comprehensive data on the foreign trade of transnational corporations exist only for the United States." For example, *Fortune's* annual listing of the 50 largest U.S. exporters shows that the top 15 firms on the list account for almost 20 percent of total U.S. exports and almost 30 percent of exports of manufactures. The entire group of 50 companies provides roughly 30 percent of total and 45 percent of manufactures exports.

Chart 1



MNCs likewise account for a large share of U.S. imports. But only part of their total trade is with their overseas affiliates. In 1982 (the year of the Commerce Department's latest benchmark survey of foreign direct investment), U.S. MNCs provided 72 percent of total U.S. exports, but less than one third of these shipments went to their affiliates (Chart 1). On the import side, U.S. MNCs took 46 percent of the U.S. total, with slightly over one third shipped by their overseas affiliates.

The international orientation of U.S. MNCs is confirmed by the fact that their 1982 share of total exports (72 percent) was considerably larger than their share of U.S. business (25 percent of total nonbank employment). This probably reflected their concentration in goods-producing sectors, as well as their greater ability to adapt their production rapidly to the needs of their foreign customers. But it also indicated their close links with their foreign operations, since over half of U.S. parents' shipments to majority-owned foreign affiliates was intended for further manufacture.

All these data cover only trade between U.S. MNCs and their overseas affiliates. If the U.S. affiliates of **foreign** MNCs are included (these are part of "others" in Chart), the share of U.S. trade generated by **all** MNCs, both U.S. and foreign-based, is much higher and in 1982 accounted for 94 percent of all U.S. foreign trade (Table 1). This was split approximately two-thirds/one-third between U.S. MNCs and the U.S. affiliates of foreign MNCs (Chart 2).

A more recent survey by the Federal Reserve Bank of Boston confirmed the prevalence of intracompany trade. Responses by 57 New England

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Table 1
U.S. Foreign Trade Associated With MNCs*

	Amount ($ bill.)		Share (percent)	
	1977	1982	1977	1982
Total U.S. trade (exports plus imports)	278.7	456.1	100.0	100.0
MNC-associated trade of which:	254.0	428.7	91.1	94.0
With unaffiliated parties	149.0	263.9	53.4	57.9
Intracompany	105.0	164.8	37.7	36.1

*U.S. MNCs plus U.S. affiliates of foreign MNCs

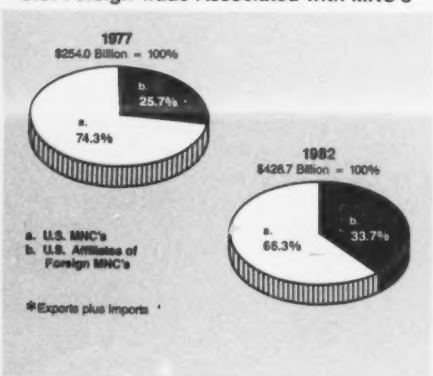
MNCs (18 foreign-owned affiliates and 39 U.S. firms) indicated that in 1983 over half of the firms' foreign trade was in-house. Intracompany exports and imports averaged 50 and 58 percent, respectively, of the U.S. respondents' total trade. For the U.S. affiliates, 44 percent of exports and 70 percent of imports were with their foreign parents.

The data also showed that between 1979 and 1983 the U.S. parents' trade with their two largest affiliates grew much faster than their trade with the two countries in which the affiliates were located. Exports to the two most important affiliates rose by 35 percent as against only 19 percent in overall shipments to the host countries. Imports from major affiliates surged by 279 percent over the same period, as against 56 percent for all imports from those same countries. The survey notes, however, that many of the affiliates in question were established since the late 1970's and that their trade therefore expanded from relatively low levels.

The Role of Intracompany Trade

Chart 2

U.S. Foreign Trade Associated with MNC's*



While the data on intracompany trade always are several years old, they do provide a general outline and suggest that for some industries, as well as for individual countries, such trade can be significant. On a geographic basis, the data are fairly easy to interpret. Thus, in 1982 shipments by Canadian affiliates to their U.S. parents (mainly in the automotive sector) accounted for 36 percent, and those of British affiliates for 9 percent, of their countries' exports to the United States. Intracompany shipments by U.S. affiliates in Hong Kong, Singapore and the Caribbean contributed 15, 56 and 64 percent, respectively, to U.S. imports from those areas.

On an industry or product basis, the picture is more muddied since the published data show MNC-associated exports and imports by **industry** of the parent, rather than by product. Some product detail is available for exports to and imports from majority-owned foreign affiliates—but even then the tables have considerable gaps "to avoid disclosure of data of individual companies."

But the industry of the parent may not reflect precisely the products that are exported, since U.S. MNCs tend to be highly diversified and hence may deal in products outside the major industry under which they are classified. They also may export goods purchased domestically outside their own industry and then shipped abroad. Similarily—although probably to a smaller extent—the industry of the U.S. parent does not necessarily indicate the nature of the products it imports.

With these caveats in mind, the **industry** data show that in 1982 imports from affiliates by the industrial chemicals, nonelectrical equipment, and

printing sectors equaled 15-20 percent of total U.S. imports of industrial chemicals, etc.; for the office machines and computer sector, intracompany imports equaled 30 percent of U.S. imports of office equipment. On a **product** basis, petroleum and petroleum products and vehicles and parts accounted for over half of all imports from majority-owned foreign affiliates (Table 2).

Table 2
U.S. Imports From Majority-Owned Affiliates, 1982

By industry of affiliate:	
Petroleum	33.5%
Transportation equipment	26.5
Electric and electronic equipment	11.7
Nonelectrical machinery	5.7
Wholesale trade	5.6
Chemicals	4.2
All other	12.8
	100.0
By product:	
Petroleum and petroleum products	33.3%
Road vehicles and parts	23.9
Machinery	20.0
Crude materials	4.5
Chemicals	4.2
Metal manufactures	3.3
All other	10.8
	100.0

It would be interesting and instructive to obtain intracompany data for individual companies, but such information surfaces only occasionally among the financial statements in annual reports. Thus, Digital Equipment Corporation, with total 1985 sales of $6.7 billion, showed intracompany sales, both in the United States and abroad, of $1.9 billion (29 percent). However, such sales accounted for 82 percent of the company's sales to customers in Canada, the Far East, and Latin America.

Can in-house trade be considered foreign trade in the traditional sense of that term? It is foreign trade for strictly statistical purposes, since it involves shipment of goods across national frontiers. But beyond the shipment itself, does an intracompany export "earn" dollars for the United States? Conversely, does importation of a part or component from an overseas manufacturing facility lead to an additional accumulation of dollars by "foreigners"? If, for argument's sake, during a given month all U.S. trade were in-house, by how much would that month's trade balance really be in the red? To answer these and related questions calls for a more detailed study of MNCs' internal accounting and payments practices.

Factors in Intracompany Trade

Does intracompany trade march to a different drummer than trade with unaffiliated parties? It has been argued that the trade of MNCs with large investments in several countries may not respond as rapidly to price shifts as the trade of independent producers that do not have to be concerned with the effect of their actions on affiliates' profitability. An MNC may divide the world market for a given product into distinct areas and allocate specific markets to different affiliates.

Another reason cited for the allegedly lower price responsiveness of intracompany trade is that closely integrated affiliates produce goods tailored to the parent's particular manufacturing and distribution needs. Such goods tend to have fewer close substitutes than the more standardized items purchased from unaffiliated suppliers and thus would be less responsive to price changes.

Under this view, intracompany trade tends to be fairly prevalent in technology-intensive industries, which have a greater need for inputs with highly specialized characteristics. Thus, in a survey of the world's 800 largest MNCs, a British researcher found that, while about one-third of these firms' 1983 trade was in-house, among high-tech firms such trade averaged 43 percent, as against a 13 percent average among low-tech firms. The example of Digital Equipment, given above, confirms these findings.

On the other hand, intracompany trade is largely "managed" trade that enhances an MNC's flexibility, permitting it to shift production between parent and subsidiaries quite rapidly. Intracompany trade might therefore be expected to be more sensitive to macroeconomic factors, such as relative price movements.

The Boston Fed's survey did in fact find such reactions. A number of the U.S. respondents indicated that they did or would move production abroad because of the dollar's appreciation. As noted, the respondents' intracompany imports grew much faster than their total imports as the dollar continued to appreciate.

The survey results even suggest that the growth in U.S. MNCs' intracompany trade may have aggravated the U.S. trade deficit in recent years. However, by expanding foreign production and intracompany imports, MNCs may have been able to maintain a larger volume of domestic output and sales than if they had not been operating abroad.

MNCs and Trade Policy

U.S. MNCs have been important in fighting major pieces of protectionist legislation. For example, they were decisive in turning back the Burke-Hartke bill of 1972 (which would have imposed quantitative import restrictions and imposed stringent controls on foreign investment). They likewise resisted repeal of those sections of the Tariff Schedule that permit duty-free re-entry of inputs that originated in the United States and hence are ideally suited to multinational production.

In fact, both the level and trend of U.S. import protection appear to be somewhat more liberal for goods in which intracompany trade is substantial. Industries that enjoy significant protection, such as textiles, apparel, leather footwear, and dairy products, or that are given intermittent relief, such as steel, are notably nonmultinational. The case of the orderly marketing agreement for Japanese color television sets is interesting in this respect, since similar agreements were not negotiated with other countries such as Mexico and Korea, where U.S. affiliates are heavily represented.

Thus, the overseas activities of U.S. MNCs may have a marked bearing on which particular products or which particular suppliers are affected by import barriers. There may in fact be a growing disparity between what the Boston Fed survey calls the "haves" and the "have-nots" among U.S. firms. Those without foreign affiliates will be petitioning for additional import restraints, while those with affiliates will clamor instead for greater access to foreign markets.

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